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13 MAY 1954

U.S. TRADE POLICY

5. The nations of the free world have been almost continually confronted with menacing gestures from Moscow since the end of World War II. In self-protection they have simultaneously developed programs of military and economic defense. The basic goal of these programs has been to increase the total strength of the free nations in comparison with the Soviet bloc. The particular method of implementing the economic defense program has been to withhold goods directly related to the bloc's war potential. 16/

6. The United States and other nations of the free world have concerted in denying all goods of primary strategic significance to the European Soviet bloc. They have permitted, however, a controlled trade in less strategic goods which could provide a net security advantage to them and also allowed trade in nonstrategic items. The objective has been to apply a system of selective and flexible controls which would prevent the Soviet bloc in Europe from obtaining the materials and commodities needed to build up its military potential and which would insure that the trade being carried on serves the real economic and security interests of the free nations. 16/

7. Against Communist China and North Korea the United States has laid down a total economic embargo. All exports and imports are prohibited, and all vessels and aircraft are prevented from calling at ports in those countries or conveying goods destined to them. Also all their assets within U.S. jurisdiction are blocked, and financial controls are imposed to deprive them of the benefits of dollar exchange. la/

8. Most of the other principal trading nations of the West have applied strategic trade controls to Communist China and North Korea which are much more comprehensive and severe than those employed against the rest of the Soviet bloc. They have not been able, however, to accept the position of the United States with respect to nonstrategic items. lb/

9. About forty-five countries support the selective embargo resolution against Communist China and North Korea adopted by the United Nations in May 1951. This relates specifically to arms, ammunition, and implements of war, and items useful in their production, atomic energy materials, petroleum, and transportation materials of strategic value. Approximately one half of these countries also apply an embargo on certain other strategic goods. Practically all the leading maritime nations of the free world have imposed controls on shipping in the trade with Communist China and North Korea. lc/

10. The current official policy of the United States on East-West trade is set forth in NSC Document 152/2, entitled "Statement of Policy on Economic Defense," approved by the President and effective on 21 July 1953. It is based on the following principles:

- a. Mutual security can best be advanced by the continued increase in the political, economic, and military strength and cohesion of the free nations relative to that of the Soviet bloc.
- b. The free nations will not furnish a potential aggressor with goods which directly and materially aid its war industry and military build-up.
- c. The free world may derive a net security advantage out of some East-West trade.
- d. Security export controls should be applied on a selective basis, except in the case of military aggression, when a policy of complete embargo may be in order. la/

11. This "new" economic defense policy represents only a moderate revision of the policies which had been in effect since 12 April 1951, NSC 104/2, "U.S. Policies and Programs in the Economic Field Which May Affect the War Potential of the Soviet Bloc". It places increased emphasis, however, on better enforcement of already ^{agreed} international security controls, rather than on major extensions of their scope.

and on the multilateral approach to security trade control problems, rather than on bilateral negotiations and agreements. It directs more attention to strengthening the bargaining position of free nations, and lessening their economic dependence on the Soviet bloc, and takes more account of economic and political impacts and conditions in participating countries. ib/

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11b. NSC Document 152/2 includes courses of action toward only the "Soviet bloc excluding Communist China". About three months after it became effective, the Executive Branch, on 6 November 1953, approved an amendment, identified as NSC 152/3, on courses of action toward the "special areas" of Hong Kong and Macao, which reads:

"In applying controls, accord to Hong Kong treatment consistent with that generally accorded cooperating countries while employing such special care as may be necessary to prevent frustration of economic defense controls on transactions with Communist China."

"To the same end apply more stringent controls on trade with Macao as may be appropriate." lc/

14/ NSC D-51, 15 January 1954, Unclassified, Attachment NSAC Fact Sheet, Miscellaneous Tab A, Secret.

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21 July 1954

Soviet Bloc Procurement Organization

12. A resume' of the organization established by the Soviet bloc for trading with the free world may be helpful at this point to a better understanding of the problems of violation or evasion and enforcement of western security trade controls. This includes a summary of the main bloc agencies in the East and in the West responsible for handling foreign trade, especially those concerned with the purchase of strategic materials or with any form of clandestine West-East trade.

13. Within the bloc, the rapid extension of Communist control over the economic life of each state has inevitably caught up with the whole range of foreign trade and, broadly speaking, transformed the multifarious individual activities of innumerable private traders into a unified and state-controlled system. The process may not yet be complete, and adjustments and innovations may be expected. The main structure has been firmly established in each state, however, and seems likely to serve for the foreseeable future. 2a/

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14. In addition to being controlled absolutely by the State, the foreign trade of the Soviet bloc is an integral part of the planned economy. It is used both as a political and an economic weapon, offensively as well as defensively. Even before the nations of the free world instituted controls on the shipment of strategic goods to the bloc the Kremlin employed trade as a cold-war instrument. Part of the Soviet machinery for economic planning and trade coordination is the Council for Economic Mutual Assistance. 2b/

15. This organization, called COMECON, or COMECON especially in Europe, not only serves to coordinate the planning agencies and the trade plans of the satellites, but has gradually acquired long-term planning and allocating functions. It apparently is the most important international supervisory agency in the Soviet bloc concerned with economic problems. Its major function seems to be, however, the control of satellite economic planning and foreign trade. 2c/

16. COMECON, or COMECON, was established near the beginning of 1949, with headquarters in Moscow, by the governments of the USSR, Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria. Albania and East Germany were admitted to membership a year or so later. The Council consists of one-to-four-man delegations from each member country. These seem to be headed by the Chairmen of the State Economic Planning Boards or Commissions, with the aid of one or two deputy chairmen. 2c/

17. The Ministry of Foreign Trade usually is represented in the delegation by the Minister or a deputy minister, but he seems to be

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subservient to the Chairman. Some country delegations to COMECON include a representative of the Economic Section of the Communist Party Central Committee. The administrative staff or Secretariat in Moscow has around two thousand "specialists," presumably professional-type employees. Each country sends one permanent delegate to the Secretariat, accompanied by a staff, probably composed of technical advisers and clerks. 2c/

18. The daily operations are conducted by the Secretariat, which has the authority to make decisions subject to ratification by the Council. The latter convenes whenever necessary, but at least once every three months. It seems clear, however, that the guiding force in COMECON is the Secretary General. 2c/

19. It is not known whether this organization is controlled by representatives of the Soviet bloc or is an integral part of the Soviet Government. From the economic standpoint this has little significance. The important fact is that COMECON or CEMA is at the top of all the economic planning and trade coordination among the USSR and its European satellites. 2c/

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20. Although the foreign trade organizational structures may differ slightly from state to state, the following general pattern is uniform:

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21. The State Economic Planning Board acts as the heart of the economic system. It is responsible for assimilating all statistics and other information relating to the economy of the state and for coordinating economic development, both internal and external. Thus, it has supreme control over foreign trade policy and formulates the plan under which all foreign trade is conducted. Membership of the Board consists of full-blooded Communists. 2a/

22. The Ministry of Foreign Trade has a triple function, as follows:

a. Adviser to the State Economic Planning Board on all foreign trade matters, for which a planning department is usually maintained.

b. Executive for the bureaucratic formalities by which trade is managed, e.g., granting import and export licenses and compiling statistical returns.

c. Arbitrator on problems concerning agencies and commissions.

Key posts in the Ministry have generally been taken over by Communists. Other positions have been retained by established officials or given to persons without political leanings. 2a/

23. The National Bank controls the disposal of earnings of foreign exchange. Some control over the granting of import and export licenses is also exercised through their referral to it for financial

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approval. As yet, for lack of banking experience, Communists are not solidly entrenched and considerable responsibility still rests with non-Communist financial experts. 2a/

24. In a few cases the State Trading Corporations have been formed from long-established sales agencies, as Kovo in Czechoslovakia. The majority, however, have been set up during the past few years. Very broadly, they correspond to the principal branches of industry in each state and are responsible for:

- a. Buying raw materials and equipment for that particular industry.
- b. Selling its products.

They also function to an unknown extent as intermediaries in purchases on behalf of their counterparts in other satellites. Throughout the whole array of these Corporations, political influence is even less pronounced than in the National Banks, but Communist indoctrination and discipline are being gradually instilled by systematic training. 2a/

25. The organization of the State Trading Corporations is rather similar in each state. They are controlled by the Ministry of Foreign Trade and their personnel are in close touch with state officials. In order to operate effectively, they have a wide knowledge of overall requirements, bottlenecks, and shortages. It is believed that their foreign exchange needs are supplied by the National Bank, possibly with the approval of the Ministry of Foreign Trade, and that the Bank in turn collars their earnings of foreign exchange. The Corporations

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are believed, however, to be allowed a commission ranging from one to five percent on the value of contracts handled. Their size and internal organization vary according to their importance to the national economy. 2a/

26. It is known that the State Trading Corporations transact the bulk of the Soviet bloc's foreign trade at the eastern end. Examples of these Corporations in several of the satellite countries are shown below:

Poland—Centrala Importacji i Eksportacji (metals), Polimex (machinery and vehicles), Hartwig (forwarding agent), all in Warsaw, the latter having branches throughout Western Europe.

Czechoslovakia—Metalimex (metals), Investa and Kovo (machinery and vehicles), Metrans (forwarding agent), all in Prague.

Hungary—Metalimpex (metals), Mikex (machinery and vehicles), Masped (forwarding agent), Mafraacht (shipping agency), all in Budapest.

Romania—Metalimport (metals), Masimport (machinery and vehicles), both in Bucharest.

Bulgaria—Bulgarrudexport (metals), Metalimport (machinery and vehicles), both in Sofia. Appendix A of 2a/

Albania—Xportal and Albimport, both in Tirana. 2d/

27. In Poland, and possibly Czechoslovakia, a number of "private" firms are also engaged in foreign trade. Information from Polish official

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b. Genuine private firms, which exist subject to approval by the Ministry of Foreign Trade, the Communist Party, and the security services—These firms owe their survival to pressure from foreign importers and exporters who made it clear that they preferred dealing with commercial agents rather than with State Trading Corporations. The terms on which these private firms may participate in Polish foreign trade, the range of commodities handled, and the extent of the business they may transact are not known, but it has been claimed that they are allowed to carry out only those deals which are of no interest either to the Corporations or to the Communist-controlled "private" firms. 2a/

29. In the U.S.S.R., trade (and finance) is subject to state management or close supervision. Soviet trade has two peculiar characteristics, its form and its policy. These are, respectively, a system in which the government exclusively controls the importation and exportation of goods and a persistent drive to obtain maximum self-sufficiency. Basically, both stem from the same cause—the desire to have a planned and regulated economy isolated from economic factors outside of direct Soviet control. 2a/

30. State monopoly of imports and exports gives the Soviet Government momentous tactical advantages in dealing with foreign traders. As the sole buyer and seller of the Soviet Union, the monopoly is in a much stronger bargaining position than mutually competing foreign traders. There is no competition among the Soviet trade agencies in the foreign markets which

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affects prices adversely from their own standpoint. Prices at which the Soviet Government buys and sells commodities in foreign trade have little or no relation to internal prices. Therefore, if the situation warrants it, the government stands ready to outbid or undersell competitors, as appropriate. 2e/

31. The U.S.S.R. alone has evolved, over the past thirty years, a system which is marked by certain well established features. In general, all business associated with exports from the Soviet Union is conducted from Moscow, while business involving imports is carried out by the Soviet Trade Mission, often styled Torgpred representatives, in the country of origin or of the seller. As a rule, Soviet Trade Missions deal directly with manufacturers or merchants. It has been alleged, but not satisfactorily proved that when they wish to conceal the identity of the Soviet Union as a purchaser or consignee arrangements are made for the business to be placed by a satellite on their behalf. 2a/

32. It is possible that the features outlined in the preceding paragraph will in time be adopted throughout the Soviet bloc. Commercial and tactical considerations make it unlikely, however, that Moscow will call on the satellites to abandon their existing contracts and methods of dealing with the west until the Soviet Government is prepared to cut the economic links between the bloc and the rest of the world. 2a/

33a. Thus, Czechoslovakia, a country which manufactures many consumer goods and is largely dependent on foreign trade for its prosperity, has publicly declared: "While as regards production, consumption, and capital investment Czechoslovakia closely follows the experience and

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practices of the U.S.S.R., she can not do so in planning her foreign trade." This basic fact probably accounts for the preservation of many long-established connections with trading agencies and representatives in the West. By the same token, as indicated above Poland has bowed to commercial necessity and tolerates the existence of some private trading agencies. Roumania on the other hand, largely a producer of raw materials, has found it possible to conduct most of her foreign trade along Soviet lines, namely, through State Trading Corporations in Bucharest and official representatives in the West. 2a/

33b. Communist China has had two main European trading organizations since the beginning of 1951, both in East Berlin:

a. The China Export Corporation, established in January 1951, was its principal trading representative in Europe during that year and part of 1952. The personnel were exclusively German, and apparently not entirely satisfactory to the Chinese Government from the start. This Corporation never attained the monopolistic position now occupied by its successor and was dissolved officially on 31 December 1953.

b. The China National Import and Export Corporation is the present sole agent of Communist China for trade with the West. It is the European branch of the Chinese State Trading Corporation of the same name with headquarters in Peiping. The latter has a branch in Tientsin, and presumably offices in Shanghai and Canton. The East Berlin branch was established during the spring of 1952. All its professional personnel are

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Chinese. Although the CNIEC is not actually a specialist in embargoed commodities, its trading policy is determined by the import priorities set up for the development of China, and these include primarily the type of goods which the West agreed to withhold from that country. 21/

33c. The two corporations in Europe, CEC and CNIEC, collaborated for about a year and a half in the same field under a rather strained working arrangement. Serious friction developed between the Chinese and the China Export Corporation only a few weeks after its inception. Friction between it and the Chinese National Import and Export Corporation was continuous. This situation was not conducive to such trading activity and it is strongly indicated that a great many of the deals consummated in 1952 and 1953 were conducted by the Peiping headquarters or Tientsin branch of CNIEC and through the remaining western firms in China. Also a number of private concerns in China are still permitted to do business with their established trade connections if it proves especially advantageous to China. 21/

34. In the matter of trade representation abroad, therefore, policy may be expected to vary among the satellites, but the general tendency is difficult to discern. Some time ago the indications were that satellite purchases on the whole would be concentrated in the hands of a few highly organized agencies in the West, but the trend developed in the opposite direction. The number of agencies and individuals handling satellite business has multiplied, and there is no conclusive evidence that their various activities are effectively coordinated. 22/

35. In the West, the Soviet bloc procurement organization is less

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distinct and not as stable as it is behind the iron curtain. The trade missions are the most important element of both Soviet and satellite representation abroad, followed by the commercial counselors and the individual trading agencies. The relative responsibilities of the mission and the counselor where they both exist in the same country are not very definite and the policy underlying the use of the trading agencies appears to be flexible. 2a/

36. Normally the trade missions come under the direction of their country's Ministry of Foreign Trade, but they are also controlled in some degree by the Central Committee of their national Communist Party. Further control is exercised over at least a few of them by the State Economic Planning Board. These missions are composed of representatives of the nationalized industries and State Trading Corporations. Their functions are to make inquiries and, in certain instances, to place contracts on behalf of the industries and corporations, check manufacturers' progress and deliveries, and to supervise the flow of exports from their own country. They are also concerned with the payment of commissions and the selection of trading agencies. 2a/

37. The duties of commercial counselors and their departments are primarily advisory where there are trade missions. They have the responsibility for studying local economic and financial conditions, carrying out market research, and for keeping their Governments informed of current local commercial practices. In the absence of a trade mission, the work it would perform falls on the commercial counselor. The part played by him depends largely on the capacity of the individual. It has been

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reported that in Italy the Soviet Commercial Counselor watches, without necessarily controlling, the activities of satellite commercial representatives, and possibly also the entire array of trading agencies operating in the interests of the Soviet bloc. In London a late Rumanian Commercial Counselor turned himself into the equivalent of a "slick trade mission," pursuing inquiries and placing orders in the U.S. and elsewhere. 2a/

38. The trading agencies in Western Europe used by the Soviet bloc may be divided into the following categories:

- a. Branches of the central State Trading Corporations, such as Kovo of Czechoslovakia with branches throughout the world, and Estalinport of Rumania which maintains a buying office in Milan.
- b. Firms set up by Eastern European states for the specific purpose of trading, especially purchasing from the West, as Omack in Switzerland.
- c. Concerns established by local Communist parties with the dual object of expediting trade with Eastern Europe and securing funds for their own purposes.
- d. Opportunist traders who are prepared to deal extensively in the supply of strategic materials to the East. 2a/

39a. Among these Western European trading agencies are the following firms 2/ which have been reported as being engaged in business on behalf of the Soviet bloc against the declared interests of the Western powers:

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